

# **State of Alaska FY2003 Governor's Operating Budget**

## **Department of Revenue PFC Custody and Management Fees BRU/Component Budget Summary**

## **BRU/Component: PFC Custody and Management Fees**

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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### **Component Mission**

The mission of the Alaska Permanent Fund Corporation is to maximize the value of the Permanent Fund through prudent long-term investment.

### **Component Services Provided**

Investment of financial assets in equities, fixed income, real estate, and alternative investments. Produce earnings sufficient to meet dual legislative mandate: inflation proofing and dividends. Provide accurate investment management and accounting of all Permanent Fund assets, including Science and Technology, Mental Health Trust and International Trade & Business Endowment Fund assets. Distribute quarterly and annual financial reports, informational brochures; and increase public awareness and understanding of Permanent Fund goals and objectives.

### **Component Goals and Strategies**

1. Maximize the fund's total return over time in a manner consistent with the long-term objective and risk tolerance.
2. Develop and implement a board-approved plan to take advantage of the new investment flexibility building upon the framework of the existing investment program.
3. Continue to promote legislative adoption of a payout rule based on a percentage of market value (POMV) distribution of fund income.
4. Consolidate and keep current all corporate information technology resources, systems and capabilities; and maximize their usefulness to APFC staff.
5. Ensure strong monitoring and internal control systems are in place.

### **Key Component Issues for FY2002 – 2003**

- Plan for and manage investment risk during times of increasing market volatility, while taking advantage of opportunities to increase returns (including the increased statutory flexibility).
- Ensure investment policies maintain the delicate balance between the fund's competing mandates of protecting the principal to benefit future generations and producing income to benefit current generations.
- Provide Alaskans with timely and accurate information on the fund, in support of discussions on the fund's role in Alaska's fiscal and economic future.

### **Major Component Accomplishments in 2001**

- Each Permanent Fund portfolio - stocks, bonds and real estate - beat its respective benchmark.
- Consolidated and simplified board investment specific resolutions for each asset class.
- Reviewed all benchmarks within context of asset allocation goals.
- Implemented a management plan for the corporation outlining the goals and tasks to be accomplished each fiscal year.

## Statutory and Regulatory Authority

AS 37.13

### Key Performance Measures for FY2003

#### Measure:

The corporation's investment expenses compared to the investment expenses of other large institutional funds.  
Sec 131 (b) (1) Ch 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

- The Permanent Fund has four asset classes that can be evaluated: 1) domestic equities management fees; 2) non-domestic equities management fees; 3) domestic fixed-income management fees; and 4) non-domestic fixed-income management fees.

- As of June 30, 2001 the asset classes compared as follows: 1) domestic equities fees were lower than 63% of the funds surveyed; 2) non-domestic equities fees were lower than 67% of funds surveyed; domestic fixed-income fees were lower than 90% of funds surveyed; and 4) non-domestic fixed-income management fees were lower than 59% of the funds surveyed.

#### Benchmark Comparisons:

- Callan Associates Inc. 1999 Fund Sponsor Cost of Doing Business Survey.

#### Background and Strategies:

- All Alaska Permanent Fund Corporation equities, non-domestic fixed-income securities and a portion of domestic fixed-income securities are managed by external professionals (both active and passive styles). The remainder of domestic fixed-income securities are managed internally. Real estate assets are also managed externally, but investment expenses are netted against income.

#### Measure:

The total return by asset type compared to other institutional funds.  
Sec 131 (b) (2) Ch 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

- The Alaska Permanent Fund has five asset classes that can be evaluated for 1-year and 5-year periods as of June 30, 2001. The Permanent Fund Corporation's return will be listed first then the median return for other institutional funds.

- 1) Domestic equities: One year, -13.1% / -5.3%; Five years, 13.1% / 14.9%
- 2) Non-domestic equities: One year, -22.9% / -23.4%; Five years, 6.0% / 6.0%
- 3) Domestic fixed-income: One year, 11.4% / 11.0%; Five years, 7.1% / 7.4%
- 4) Non-domestic fixed-income: One year, 0.8% / -6.5%; Five years, 7.1% / 7.4%
- 5) Real estate: One year, 14.3% / 10.2%, Five years, 11.9% / 10.3%

#### Benchmark Comparisons:

- Asset allocation adjusted rankings from the Callan Associates, Inc. Investment Measurement Service.

#### Background and Strategies:

- Comparing returns among similar large investment funds is a standard process.

#### Measure:

The inflation-adjusted rate of return over time.  
Sec 131 (b) (3) Ch 90 SLA 2001(HB 250)

#### Alaska's Target & Progress:

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FY2003 Governor  
Department of Revenue

The board has quantified this goal to achieve a real rate of 4% over time.

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- The Fund's total return for fiscal year 2001 was -3.3% with an inflation rate of 3.4%. The real (inflation adjusted) rate of return was -6.7%. The annualized total return for the past five year is 9.5% with a 5-year annualized CPI rate of 2.5%. The real (inflation adjusted) rate of return is 7.0% average for the past 5 years.

**Benchmark Comparisons:**

Total Fund return less national CPI.

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**PFC Custody and Management Fees****Component Financial Summary***All dollars in thousands*

	<b>FY2001 Actuals</b>	<b>FY2002 Authorized</b>	<b>FY2003 Governor</b>
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Contractual	34,739.6	47,585.8	47,585.8
74000 Supplies	0.0	0.0	0.0
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>34,739.6</b>	<b>47,585.8</b>	<b>47,585.8</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	34,739.6	47,585.8	47,585.8
<b>Funding Totals</b>	<b>34,739.6</b>	<b>47,585.8</b>	<b>47,585.8</b>

## PFC Custody and Management Fees

### Proposed Changes in Levels of Service for FY2003

No anticipated service change

### Summary of Component Budget Changes

#### From FY2002 Authorized to FY2003 Governor

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2002 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>47,585.8</b>	<b>47,585.8</b>
<b>FY2003 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>47,585.8</b>	<b>47,585.8</b>